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## Australia

### Cotton and Products

### Quarterly Lockup

**2007**

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**Report Highlights:**

Australian cotton production for the 2007/08 season is forecast at 500,000 (0.5 million) bales, or approximately 113.5 TMT. Post estimates that about 60,000 hectares will be planted, the smallest cotton planted area in Australia since 1978/79. Estimated production for 2006/07 remains unchanged at 1,100 bales, or 250 TMT.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Quarterly Report  
Canberra [AS1]  
[AS]

**SECTION ONE: SITUATION AND OUTLOOK****Cotton Production**

Australian cotton production for the 2007/08 season is forecast at 500,000 (0.5 million) bales, or approximately 113.5 TMT. This forecast represents a significant fall from previous estimates and reflects the lack of rainfall since early July.

Post estimates that about 60,000 hectares will be planted to cotton in 2007/08 and has assumed a yield of around 8.32 bales per hectare (1.89 MT/hectare). According to historical ABARE data, a planted area of 60,000 hectares if achieved would represent the smallest cotton planted area in Australia since 1978/79.

Estimated production for 2006/07 remains unchanged at 1,100 bales, or 250 TMT.

**General**

At the time of writing this report, harvest for the 2006/07 cotton crop is complete and planting of the 2007/08 crop will likely occur from mid-September to mid-October. Cotton planted after mid-September is typically lower yielding. Sources advise that growers are now in the process of preparing for planting and purchasing seed.

As the vast majority of Australia cotton is grown under irrigation, the primary driver of production remains the availability of irrigation water. Rainfall in the catchment areas and to a lesser extent the growing areas, during September and October will be critical to improving cotton production prospects. Post has assumed average rainfall for September and October.

Key industry sources believe the opportunity for the Australian cotton industry to recover from drought in 2007/08 has already passed. Typically, the months of September and October are not likely to provide the type of weather conditions (drought breaking) which would see production prospects greatly improve.

**Weather Conditions**

The irrigation catchment areas for the majority of Australia's cotton growing regions (New South Wales and Southern Queensland) have received valuable rainfall in the second half of June, with some follow-up rain in the first half of July. This rain, which was relatively heavy in some areas, has not yet replenished irrigation water storages; however it has provided a profile of soil moisture such that further heavy rainfall would likely see significant inflows and consequently significant improvements in supplies of irrigation water. Cotton growing areas have also received useful, although somewhat lesser, rainfall.

Despite useful falls of rain, the chance of cotton production in 07/08 rising from record low levels seems unlikely. Rainfall for the months of September and October would need to be substantially above average for prospects to improve tangibly.

**Irrigation water supplies**

At the time of writing this report, cotton producers in northern NSW are not expecting a general allocation of irrigation water which would allow significant production of cotton. These growers represent perhaps half of Australian cotton production. Cotton grown in northern NSW, as well much of the cotton grown in other areas will rely on underground water and water that can be harvested from other sources (such as on farm storage).

Although irrigation water reservoirs have gained some water in recent months, they have not yet reached levels where crops such as cotton can be allocated water. Government reports concerning irrigation water reserves show that additional water availability would likely initially be made available for uses other than broad acre crop production. Regional towns, livestock, industry and environmental requirements all receive priority over crop production such as cotton. At this point in time, there is almost enough water left in the system to account for non-agricultural uses.

Assuming inflows into the system over the next three months are sufficient to continue to increase water storage levels, the first agricultural users to receive water will be those who have "carry over" water allocations, or those who had water entitlement "suspended" during trade. Assuming those needs are met, the next users will be "high security" water users – typically tree and vine fruit producers (citrus, stone fruit, viticulture etc). The last group to receive irrigation water will likely be broad acre agricultural users who are considered general allocation (rice, cotton etc).

### Cross Commodity Developments

Lower grain production due to drought, combined with high export meat prices and the forecast expansion of ethanol production have pushed domestic feed grain prices to record or near record levels. Recent media reports described the domestic feed grain market as "white hot".

The poor availability of irrigation water and relatively high water requirement of cotton and rice has seen a shift away from these crops towards summer feed grain crops such as sorghum, and to a lesser extent corn. Furthermore, some cotton producers have opted to use dwindling water supplies to grow winter cereals such as wheat.

### Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:  
<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS7044	FAIRS Export Certificate Report	08/20/07
AS7043	Exporter Guide	08/15/07
AS7042	Ag Down Under Vol. 8, 2007	08/06/07
AS7041	Grain Quarterly Update	08/01/07
AS7040	FAIRS Country Report	07/31/07
AS7039	Senate Committee Completes Inquiry into NZ Apple Decision	07/09/07
AS7037	New Import Risk Analysis Process Becomes Law	06/28/07
AS7036	Agricultural Biotechnology Annual	06/28/07
AS7035	Ag Down Under Vol. 7, 2007	06/22/07
AS7034	Parliament Passes Legislation to Amend Wheat Marketing in Australia	06/22/07
AS7033	"Australian Grown" Logo Launched	06/22/07
AS7032	Biofuels Annual	06/08/07
AS7030	Dairy Semi-Annual	05/17/07
AS7029	Soybeans Approved for Import	05/14/07
AS7028	Ag Down Under Vol. 6, 2007	05/11/07
AS7026	Cotton Annual	04/26/07